Moody's Investors Service

Global Credit Research
New Issue
20 DEC 2004

New Issue: Goat Hill Properties, WA

MOODY'S ASSIGNS Aa1 RATING TO GOAT HILL PROPERTIES (WA) LEASE REVENUE BONDS

BONDS ARE SPECIAL, LIMITED OBLIGATIONS OF KING COUNTY

King (County of) WA
County
WA

Moody's Rating

ISSUE	RATING
Lease Revenue Bonds, 2005 (King County, Washington Governmental Office Building Project)	Aa1

Sale Amount	$100,000,000
Expected Sale Date	01/11/05
Rating Description	Lease Revenue Bonds

Moody's Outlook Stable

Opinion

NEW YORK, Dec 20, 2004 -- Moody's Investors Service has assigned an Aa1 rating to Goat Hill Properties Lease Revenue Bonds, 2005 secured by rental payments to be made by King County, Washington (UTGO rated Aaa; LTGO rated Aa1). The rating is based upon the credit strengths of the county, which include its diversified though currently still recessionary (though improving) economy and its well-managed financial operations. The rating on the current issue also reflects the strength of the legal security which is a limited tax general obligation pledge. The current issue will fund construction of a county office building and parking garage. The primary tenant for the office building will be the Seattle-King County Department of Public Health.

ECONOMY, RECOVERING FROM RECESSION, FEATURES UNSTEADY JOB GROWTH AND MODERATE ASSESSED VALUE INCREASES

King County is the heart of the Puget Sound region, the commercial hub of the Pacific Northwest. The computer services and aircraft sectors are key components of the diverse regional economy centered around the City of Seattle. Like the rest of the nation, the region recently experienced an economic recession from which it is beginning to emerge. Real estate values have remained strong, although the rate of assessed value (AV) growth has slowed in recent years. AV increased by only 6.2% in 2003 and 4.8% in 2004, compared to an average annual growth rate of 12% in the prior three years. Total AV is nonetheless sizable at $236 billion.

By comparison with its neighbors, King County's employment was particularly hard hit and the county was somewhat slow to recover. Indications are strong, however, that the regional economy has passed a turning point. The recession had led to significant erosion in employment but jobs are now being created in the region, as they are in the state and nationally; the majority of the regional job creation is occurring in King County. Although the pace of job growth is erratic the direction generally appears positive, particularly in light of plans announced by both Boeing and Microsoft to hire thousands of new employees by year-end. Unemployment rates are improving, with figures for September 2004 placing King County unemployment at 4.9%, stronger than the 5.1% statewide figure in that month and a dramatic improvement over the county's 6.5% rate in September of the prior year.

STRONG MANAGEMENT ENSURES CONTINUED FINANCIAL STRENGTH

King County has maintained its strong financial position despite significant challenges. The economic recession has affected sales taxes; total sales taxes collected have declined each year since 1999, as a result of which General Fund sales tax revenues have been erratic. Total General Fund revenues increased 2% in fiscal 2003, a growth rate consistent with the prior year but significantly lower than that experienced in years past. Expenditures increased 3% in fiscal 2003, with the greatest pressure arising from criminal justice costs. Total expenditures nonetheless remained below revenues, allowing a continued strong fund balance in the General Fund. At $96.2 million, the fiscal 2003 fund balance represented a solid 19.1% of General Fund revenues. The County's financial management focuses on the Current Expense Subfund within the General Fund, with a goal of maintaining fund balances between six and eight percent of revenues. Despite pressures experienced in recent years, the County has invariably been successful in meeting this goal.

Like other local governments in Washington, King County faces a persistent structural deficit as a result primarily of the revenue limitations imposed by Initiative 747. The county estimates that, absent corrective action, expenditures would exceed revenues by approximately $20-to-$25 million annually for at least the next decade. The county's 2004 general fund budget was balanced through expenditure cuts of $8 million, new revenues of $7 million from a Parks Levy approved by voters in May 2003 and $7 million from a rental charge paid by the solid waste utility for a landfill site, plus $2 million in revenues redirected from other programs. To date, revenues have come in higher than expected for fiscal 2004. As a longer-term strategy, the county is exploring fundamental restructuring of expenditures, notably in connection with unincorporated areas that might be annexed to adjacent cities. A revenue solution is unlikely, at least in the near term, because property tax revenue growth is capped and generating significant new revenues would require broader based taxes or taxing authority than currently available to the county.

CURRENT LEASE FINANCING OFFERS STRONG SECURITY TO BONDHOLDERS

The revenues that secure the current issue are comprised of rent payments by the county. The financing is being structured as a lease in order to enable the county to outsource construction of the facility to a private developer on a turnkey basis. The county's obligation to make rent payments is a limited tax general obligation, and is not subject to appropriation or abatement. The county's obligation to make lease payments commences upon substantial completion of the project, currently scheduled to occur in February 2007, twenty-five months after commencement of construction expected in January 2005. Interest is being capitalized until December 1, 2007, approximately ten months beyond the currently scheduled completion date, and six months past the latest allowable date for substantial completion of the project as defined by the development agreement. The lessor is a single-purpose nonprofit entity. Based upon the county's conservative sizing of its capitalized interest account, its project management capabilities, and its absolute obligation to make rent payments from its limited taxing authority, the rating on the current financing is consistent with that on the county's outstanding limited tax general obligation bonds.

KEY STATISTICS

Population, 2003: 1,779,300

Assessed value, 2004: $235.8 billion

Assessed value growth, 2004: 4.8%

Net direct debt burden, 2004: 0.4%

Overall net debt burden, 2004: 2.0%

Fund balance in general fund, FY 2003: $96.2 million

Fund balance as % of general fund revenues, FY 2003: 19.1%

Analysts

Jeffrey Thomas
Analyst
Public Finance Group
Moody's Investors Service

Matthew Jones
Backup Analyst
Public Finance Group
Moody's Investors Service

Contacts

Journalists: (212) 553-0376
Research Clients: (212) 553-1653